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with the knowledge of these processes in the heads of just a few employees;

- Limited reporting capabilities that have propagated spreadsheet-based reports that house critical financial results which are the company's "corporate records." Spreadsheets are further used to support multiple manipulations of the same data over and over to meet various reporting requirements, with weak controls as to accuracy, approvals, and tracking of recipients.

When taking a deeper look at the risks and opportunities within the close process, dealing with reporting and analysis issues is where organisations have the best opportunity to achieve both greater efficiency and reliability.

Optimising the Financial Close Process

In order to optimise the financial close process, organisations should match the key activities that drive the actual close process with the technologies that provide process support as well as information integration. With increased scrutiny of the financial close as a key internal control process, providing assurance over the internal controls that govern the close process must be

considered as well.

The water-fall process presented below outlines the key phases of the financial close process at a high level. During each phase, and as a prerequisite to moving to the next phase, analytic activities are performed to validate the results. These manual, spreadsheet-based processes are 'internal control' reports that provide the analysis of information required for assurance during the financial close. This process of validating information with manually compiled analytics is time consuming, resource intensive, error prone and presents critical control implications for financial reporting, and ultimately business decisions. Most financial consolidation systems integrate information at a high level, automate period-end activities, such as eliminations and produce summarised income statements and balance sheets with limited analysis capabilities. Detailed analysis and reporting (both variance and management) take place outside the consolidation system. Analytic reporting – a key capability on which finance professionals spend most of their time – is missing.



Modernising the Financial Reporting Environment

When a strategic goal is to modernise the financial reporting environment, the best practice is to invest in a solution that will meet financial consolidation analytic requirements, statutory financial reporting, and provide the information platform for performance management and decision support.

Leading finance users, consistently highlight the following areas where automating the financial close drives value and a corresponding return on investment (ROI).

- Process improvements – fast close, real-time reporting, shorter planning and re-forecasting cycles.
- Efficiency – less manual effort required for reporting and analysis.
- Reliance – more accurate and timely information available to more users.
- Audit efficiency – reduced resource requirements and cost of annual and quarterly audits.
- Finance ownership – a solution that is owned by finance and easy to use, with less reliance on IT.

Although there is no agreed definition of the 'Fast Close', it is commonly deemed as the number of days taken by companies to publish their final audited accounts following the year end. It is, however, a broad brush measure that says little about the efficiency of the underlying process. For example, two companies that produce

their results thirty days after the year end are ranked equally, irrespective of whether one of them uses thirty percent more finance resource than the other to meet the deadline.

Another curiosity is that a benchmark focused exclusively on the year end, says nothing about the regular monthly or quarterly reporting cycles which are the lifeblood of management

reporting, performance measurement and control. Clearly, there is a need for more holistic approach which not only drives faster reporting throughout the year, but also underpins a process of continuous improvement.

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Collecting data from subsidiaries has always been fraught with difficulty. The heterogeneous nature of many global businesses, reflected in their diverse operational systems and charts of account has acted as a significant drag on the Balance Sheet Consolidation (BSC) as group finance grapple with a multitude of different systems interfaces. Even the simplest 'mapping' of data from local ERP to group systems can involve extensive manual procedures, spreadsheets, and batch transfers of files, introducing the potential for serious error along every step of the way. The scope for mistakes is also greatly magnified by the number of entities involved and frequent changes in group reporting packs, brought about by management demands and regulatory change. The difficulty is that once erroneous data enters the reporting supply chain, it tends to travel through the process unchallenged, consuming valuable time and resources to put it right.

However, vast improvements in the management of data quality are beginning to have an impact. A new generation of advanced ETL (Extract, Transform and Load) tools which bind

subsidiaries' systems tightly into the reporting supply chain and require little in the way of formal IT skills are allowing finance functions to exert control over mapping tables, data transfer and changes to charts of accounts so that the process of harvesting data from reporting entities becomes dependable and accurate. This level of automation accompanied by greater control and visibility across the entire organisation greatly accelerates the process whilst simultaneously reducing errors.

The expectation of the User Group is always to have a process as simple as the Approval Process depicted here, however to have best possible controls and efficiencies in the process, one need to ensure the application provides the ease and control both that are managed and control by the Finance team.

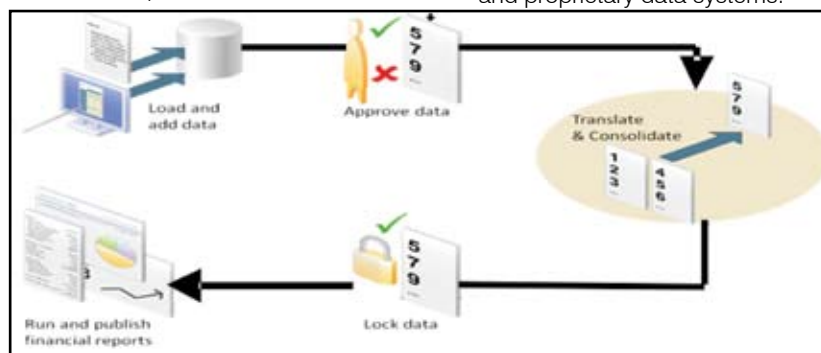
The fact that statutory reporting these days has partly metamorphosed into a marketing exercise and a means of delivering a corporate message has added to the pressures.

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results.

• **ERP Systems**

Enterprise Resource Planning (ERP) and general ledger systems are excellent for storing data and managing the transactions that support the business. Companies typically have an array of ERP and other financial and non-financial application systems, ranging from state-of-the art solutions to legacy and proprietary data systems.



Inefficacy of Current Consolidation Systems

Meeting the consolidation challenge is difficult because organisations use manual, inadequate, or multiple consolidation systems for their financials. As a result they are unable to structure, control, and automate the process for internal and external reporting, and are unable to gain a single, accurate view of financial

Unfortunately, ERP and general ledger systems are not designed to easily integrate or consolidate data from other sources. To produce appropriate financial statements, a single aggregated view across all transactional systems is required. As well, these systems do not provide all the necessary consolidation functionality. To ensure that the closing process is

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timely and accurate, the system must handle all the complexities of consolidation, such as currency conversion and inter-company eliminations. What's more, it is not flexible enough to manage the accounting of business changes such as mergers and acquisitions—in a timely manner.

• **Spreadsheets**

Spreadsheet systems are widely used for accounting and financial reporting. But multiple spreadsheets make each person or department an island of report information. This can lead to duplicated effort and opens the door to inconsistent data representation. Spreadsheets drive unacceptable rates of input errors—from data entry, re-keying, link-failures, and cut-copy-and-paste activities. Security of spreadsheets is inherently problematic, since communication of information is via emails or shared drives. As well, auditing of spreadsheet content is virtually nonexistent, since there is no systemic ability to track who received what information or who made which changes to the data.

As with ERP systems, spreadsheets also lack sophisticated consolidation capability. They don't have the necessary level of sophistication

needed to calculate and track important functions such as inter-company adjustments, business changes, and other journal entry changes.

Consolidation: The First Step in Sustaining Compliance

The first priority for an organisation seeking to change processes in order to maintain compliance is to focus on improving the core systems that directly support financial reporting and accuracy. This means looking at the processes for gathering, consolidating, and reporting financial information results, and finding improvements to deliver the information in a more transparent, accurate, secure, and timely manner.

The goal is to have a consolidation and financial reporting system that helps businesses effectively manage their financials; reduce the risk factors for errors, fraud and manipulation; lower the cost of compliance audits; and accelerate the closing and reporting process.

Reliable financial data is the backbone of compliance, and a robust consolidation system provides the foundation for accountability. And this is the jumping off point for delivering greater transparency and management of company performance—the broader, sustainable objectives going forward.

Compliance Calls for a Better Solution

Using manual and inadequate consolidation systems creates inefficiencies, exposes the process to errors, and increases compliance costs. Such systems negatively impact the bottom line, as businesses sacrifice performance initiatives to instead direct time and resources toward fixing errors and reworking the numbers. This can lead to further inspections, audits, and restating of financial statements, which drive expenses even higher. In

the current regulatory environment, companies need a consolidation system that streamlines processes, ensures accuracy, and helps control costs. It is essential that the system deliver in these areas:

- Financial reporting from a single version of the truth. Reporting must also support delivery of many styles and types of reports – for example, producing reports across multiple GAAPs – and providing a line of sight from management reports to financial statements.
- Future-proofing of consolidations. As requirements such as IFRS enter the fold, systems need to be able to handle the different consolidation and reporting complexities driven by common accounting standards and reporting.
- A single, centralised platform for all processing and calculations. It is no longer appropriate to provide supplementary processing with multiple systems, spreadsheets, and people.
- Adaptable to business change. The current pace of business requires a new degree of agility and nimbleness in finance. Companies need to quickly incorporate the latest information for analysis or to identify scenarios for mergers and acquisitions. As organisations add and divest new entities, financial results must reflect these changes in a timely manner.

Conclusion

In conclusion, to do away with the inefficacy of Current Consolidation Systems the use of modern software solutions becomes inevitable which would lead to improved financial close and reporting process and achievement of increased quality, accountability, auditability, efficiency and ultimately, regulatory compliance. All above may result in achieving a better financial consolidation management system. ■